

Annual Report 1974

CanCorp

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**THE
YUKON
CONSOLIDATED
GOLD
CORPORATION
LIMITED**

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

TO THE SHAREHOLDERS

Net income after write-down of investments of \$735,832 for 1974 was \$3,128,322 which is equivalent to \$0.26 per share assuming conversion of the Promissory Notes; this may be compared with \$6,582,735 or \$0.55 per share earned in 1973. If conversion of the Notes is not assumed net earnings per share were \$0.40 and \$0.83 in 1974 and 1973 respectively.

The decline in earnings reflects the difficulties experienced during 1974 by Canadian companies such as Yukon, whose investments are concentrated in the resource field. The operating profits of many natural resource companies were adversely affected by severe weakness in commodity prices, particularly in the latter part of the year, and net earnings were further eroded by the imposition of much more onerous taxation.

During 1974 the only significant change in Yukon's investments, other than the write-down of \$735,832 referred to elsewhere in this Report, was the purchase of 47,421 shares of Crows Nest Industries Limited which brought the holding to 275,000, equivalent to 36.9% of the total number of CNL shares outstanding.

A brief review of each of the holdings is provided below.

Lornex Mining Corporation Ltd.

(20.1% Equity)

From an operational standpoint 1974 was another year of progress. The mill achieved an average daily throughput of 45,000 tons which is substantially above the rated capacity of 38,000 tons per day reached in 1973. Copper grade was higher at 0.46% as compared with 0.42% in 1973 and the production of copper in concentrate amounted to 128 million pounds which is 25.5% above the prior year figure of 102 million pounds.

This higher production was sufficient to offset lower average copper prices and earnings before taxes and royalties were \$39.2 million in 1974 versus \$37.1 million in 1973. Unfortunately the expiry of the tax exempt period on 31st December, 1973 and the imposition of

provincial royalties increased total taxation in 1974 to \$16.5 million from \$5.2 million in 1973. Net earnings in 1974 thus declined to \$22.7 million from the \$31.9 million level achieved in 1973.

Depressed world economic conditions caused a severe drop in the demand for copper in the latter part of the year and it was only possible to ship 104.0 million of the 128.0 million payable pounds of copper produced during 1974. By the year end, inventories had risen to 44.3 million pounds of copper in concentrate.

Bank loans which amounted to \$33.6 million at the beginning of the year were repaid in full and repayments of \$3.9 million of the Japanese loans reduced these loans to \$22.7 million at year end.

Consumption of copper continues to be at a relatively low level and Lornex has been forced to reduce production to avoid a further increase in inventories.

While the current situation in the copper industry is far from satisfactory, the long term outlook for Lornex has been much enhanced by a substantial increase in ore reserves to 432 million tons grading 0.411% copper and 0.014% molybdenum as at 31st December, 1974. This represents close to a 50% increase over the original tonnage of 293 million, which had been reduced to 257 million by mining up to the end of 1974. This increase would be sufficient to support an expansion of the mine under a less onerous tax environment than currently prevails. The severity of taxation is caused largely by the inability of the different levels of government to agree over the division of the proceeds derived from the taxation of companies which develop natural resources. It is essential that this dispute be resolved promptly so that capital investment in this and other resource projects can again be justified.

Crows Nest Industries Limited

(36.9% Equity)

The lumber market was depressed throughout 1974 and this caused Crows Nest to record a loss of \$831,000 which compares most unfavourably with the profit of \$3,947,000 in 1973.

Production at the saw mill has been cut back to a single daily shift and operating costs throughout the company have been reduced to the lowest possible level. There has been a minor recovery in lumber prices in recent months but significant strength will have to await a substantial increase in the level of housing starts in the U.S.

Last year Crows Nest's lumber interests were featured by a photograph of the saw mill at Elko. This year the photograph draws attention to one of the other assets which, over the long term, will be of much greater significance than the lumber interests. The picture shows an

exploration adit in a coal seam at Line Creek Ridge, where large reserves of metallurgical coal have been delineated. Crows Nest also holds important coal leases in other areas and, by February, 1976, approximately 40,000 acres of freehold coal lands will be returned to Crows Nest under the agreement with Kaiser Resources Ltd. Studies are being conducted with a view to developing Line Creek and other coal reserves.

It is also worth noting that as from 1st January, 1977, Kaiser will start to pay Crows Nest a production payment of 50 cents per ton until a total of \$34 million has been reached. Assuming Kaiser's current rate of pro-



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duction of about 5 million tons of coal per year is maintained, annual payments would amount to approximately \$2.5 million.

Industrial Mineral Ventures, Inc.

(8.4% Equity)

The general economic situation in the U.S. caused many delays in obtaining equipment but three additional circuits are now being added to the processing plant and total capacity will shortly be in excess of 100,000 tons a year. These new circuits will enable IMV to produce a much broader range of industrial minerals.

Bulk samples of several products have been delivered to prospective customers and initial test results appear most encouraging, but generation of significant revenue from sales is behind schedule. As a result IMV requires additional cash to finance operations until a profitable level is reached. Its Directors have authorized the sale of up to 212,000 shares of common stock at a price of \$20 per share and to date management has subscribed for 61,000 shares thus providing IMV with \$1,220,000. It is anticipated that additional shares will be sold and that further funds will be advanced by the banks as required.

In view of these adverse developments the investment in IMV was written down to \$20 a share and the book value of the debentures was reduced proportionately. The original cost of Yukon's total investment in IMV was \$1,496,255 which has been reduced to \$828,500. The increase in the number of IMV shares outstanding has caused Yukon's interest to decline from 10.0% to 8.4%.

Barymin Explorations Limited

(13.9% Equity)

During Barymin's last fiscal year which ended on 31st October, 1974, there was an improvement in working capital to \$1,701,000 (\$1,309,000 at 31st October, 1973). Revenue of \$836,000 (\$712,000 in 1973) was largely derived from the 23.75% interest Barymin held in a copper mining joint venture which has now exhausted its ore reserves. Revenue in the current fiscal year will thus be much reduced.

Expenditures on exploration ventures in 1974 amounted to \$198,000 which was slightly above the prior year figure of \$184,000. In the current fiscal year an active exploration program is underway which will include diamond drilling of prospects in the Eastern Townships of Quebec and in New York State. Exploration in both of these areas has continued since 1971 under a joint venture agreement with a member of the Shell Group. A drill program will also be carried out to test certain zones on a gold property in Ontario in which Barymin has a 100% interest.

Early in 1975 Barymin exercised its option to acquire 285,000 shares of Syngenore Explorations Limited and thus raised its interest to 19%. Syngenore is a private company with the balance of 81% being held by companies in the Noranda Group. Exercise of the option involved the issuance of 1,710,000 new Barymin shares which increased the total number of shares outstanding to 5,043,994 and thus reduced Yukon's interest in Barymin from 21.1% to 13.9%. A recent feasibility study by Syngenore on its zinc-lead deposit in Ireland produced results sufficiently attractive to justify proceeding further towards putting the property into production. Syngenore also holds prospecting licences covering an extensive area adjacent to the ore deposit.

Quintus Leaseholds Limited

(100% Equity)

As at 31st December, 1974, Quintus had liquid assets of approximately \$125,000 and held subleases and royalty interests which are projected to generate revenue of \$52,000 in 1975.

During the summer of 1974, through the Hazelton Joint Venture, an appraisal of a group of gold placer claims in the Yukon Territory was conducted but the prospects did not appear sufficiently attractive to justify renewing these claims. The other interests, including the acreage in the Milo Area of Alberta and the Plato water flood unit in Saskatchewan will be reviewed to determine if they should be retained.

The Corporation's investment in Quintus has been written down from \$268,077 to \$200,000.

Placer Claims in the Klondike District, Y.T.

The Corporation has 235 placer claims of which 184 have been leased in return for a royalty on all gold produced. None of these claims contains sufficient gold reserves to support mining on a large scale, and operations by lessees during 1974 resulted in the payment of royalties to the Corporation of \$28,000.

Directorate

Mr. Cecil H. Franklin has been nominated for election as a Director of the Corporation to fill the vacancy which will be created by the sanction of By-law No. Three. This by-law provides for an increase in the number of Directors from seven to eight.

Mr. Franklin is President of Algonquin Building Credits Ltd. and Chairman and Chief Executive Officer of Hardee Farms International Ltd.

He has had a lengthy direct and indirect involvement in the mining industry and is President of Tintina Silver Mines Limited, with properties in the Yukon, and Rand Malartic Mines Limited, which holds a gold prospect in northern Quebec.

Special General and Annual Meeting

The Special General and Annual Meeting will be held at the Offices of the Corporation in Montreal on 30th May, 1975.

On behalf of the Board,

NEIL B. IVORY,
President.

Montreal, Quebec,
7th May, 1975.

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF FINANCIAL POSITION

31st December, 1974

	<u>1974</u>	<u>1973</u>
Investments:		
Associated companies (Note 2)	\$27,801,206	\$22,188,962
Subsidiary company (Note 3)	200,000	268,078
Other (Note 4)	1,324,880	1,992,635
	<u>29,326,086</u>	<u>24,449,675</u>
Current Assets:		
Cash	23,205	77,968
Sundry receivables	58,225	9,450
Income taxes recoverable	—	3,000
	<u>81,430</u>	<u>90,418</u>
Current Liabilities:		
Accounts payable	54,494	8,747
Unclaimed dividends	5,626	5,626
	<u>60,120</u>	<u>14,373</u>
Net Current Assets	<u>21,310</u>	<u>76,045</u>
	<u>29,347,396</u>	<u>24,525,720</u>
Bank Loans (secured)	4,848,354	3,155,000
Promissory Notes (Note 5)	7,047,000	7,047,000
Shareholders' Equity	<u>\$17,452,042</u>	<u>\$14,323,720</u>
Represented by:		
Share capital (Note 6)	\$ 7,905,123	\$ 7,905,123
Retained earnings	9,546,919	6,418,597
	<u>\$17,452,042</u>	<u>\$14,323,720</u>

Approved on behalf of the board:

Neil B. Ivory, Director

C. L. Larock, Director

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended 31st December, 1974

	<u>1974</u>	<u>1973</u>
Income:		
Equity income in net earnings (loss) of associated companies (Note 2)		
Crows Nest Industries Limited	\$ (466,611)	\$ 451,553
Lornex Mining Corporation Ltd.	4,423,869	6,013,269
	<u>3,957,258</u>	<u>6,464,822</u>
Lornex income debenture interest (Note 2)	553,114	513,252
Other income	33,592	13,580
	<u>4,543,964</u>	<u>6,991,654</u>
Expenses:		
General and administrative	90,425	95,624
Interest	589,385	228,295
	<u>679,810</u>	<u>323,919</u>
	<u>3,864,154</u>	<u>6,667,735</u>
Extraordinary Item:		
Write-down of investments	735,832	85,000
Net Income for the Year.	✓ 3,128,322	6,582,735
Retained earnings (deficit) at beginning of year	6,418,597	(164,138)
Retained Earnings at End of Year	<u><u>\$ 9,546,919</u></u>	<u><u>\$ 6,418,597</u></u>
Net income per share (basic)	\$0.40	\$0.83
Net income per share (fully diluted)	\$0.26	\$0.55

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended 31st December, 1974

Source of Funds:	<u>1974</u>	<u>1973</u>
Net income for year	\$ 3,128,322	\$ 6,582,735
Less: Non-cash items —		
Equity in net earnings (loss) of associated companies	3,957,258	6,464,822
Lornex income debenture interest	553,114	513,252
Write-down of investments	(735,832)	(85,000)
	<u>3,774,540</u>	<u>6,893,074</u>
	(646,218)	(310,339)
Dividends from associated company	137,148	170,685
Repayment of advance by subsidiary	—	14,862
Increase in bank loans	1,693,354	1,655,000
Proceeds from sale of promissory notes	—	7,047,000
	<u>1,184,284</u>	<u>8,577,208</u>
Application of Funds:		
Investment in securities —		
Barymin Explorations Ltd.	—	496,380
Crows Nest Industries Limited	1,239,019	6,422,212
Lornex Mining Corporation Ltd.	—	1,756,861
	<u>1,239,019</u>	<u>8,675,453</u>
Decrease in Net Current Assets	54,735	98,245
Net Current Assets at Beginning of Year	<u>76,045</u>	<u>174,290</u>
Net Current Assets at End of Year	<u>\$ 21,310</u>	<u>\$ 76,045</u>

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 1974

Note 1. Accounting Policies

Associated Companies —

The Corporation uses the equity method of accounting for its investments in associated companies. The excess of cost over equity of the Corporation's investments is being amortized either on a straight line or unit of production basis.

Subsidiary Company —

The accounts of the subsidiary company are not consolidated with the Corporation's accounts. The Corporation's investment in the subsidiary company is carried in the Corporation's accounts at estimated realizable value.

Other Investments —

Other investments of the Corporation are carried in the accounts at cost or at written-down value.

Note 2. Associated Companies

The Corporation uses the equity method of accounting for its investments in the undernoted companies:

CROWS NEST INDUSTRIES LIMITED (36.87% of equity)	<u>1974</u>	<u>1973</u>
275,000 common shares at equity value	\$ 5,480,340	\$ 4,943,202
Excess cost of shares over equity value, less amortization	<u>1,858,000</u>	<u>1,759,878</u>
	<u>\$ 7,338,340</u>	<u>\$ 6,703,080</u>

The excess cost over equity of the Corporation's investment in Crows Nest Industries shares is being amortized over the 20 year period ending 31st December, 1992. The amount of such amortization for the year was \$103,077; (1973 — \$45,726).

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LORNEX MINING CORPORATION LTD. (20.08% of equity)	1974	1973
1,650,000 common shares at equity value	\$12,949,500	\$ 8,395,219
Excess cost of shares over equity value, less amortization	2,037,000	2,167,412
	<u>\$14,986,500</u>	<u>\$10,562,631</u>
8½ % series A unsecured income debentures, due 31/12/85:		
\$4,410,000 principal amount, at cost	\$ 4,410,000	\$ 4,410,000
Accumulated interest receivable	1,715,266	1,221,144
	6,125,266	5,631,144
Less: Deferred interest receivable, less amortization	648,900	707,893
	<u>\$ 5,476,366</u>	<u>\$ 4,923,251</u>
TOTAL ASSOCIATED COMPANIES	<u>\$27,801,206</u>	<u>\$22,188,962</u>

The excess cost over equity of the Corporation's investment in Lornex shares is being amortized on a unit of production basis over the estimated ore reserves of Lornex. The amount of such amortization for the year was \$130,412; (1973 — \$107,938).

The accumulated interest receivable from Lornex cannot be paid by Lornex until required interest and principal repayments have been made on a senior form of Lornex debt. The amount of interest accrued and not taken up in the accounts prior to 31st December, 1972, \$766,885, is being amortized over the period ending on the maturity date of the Lornex debentures. Such amortization for the year amounted to \$58,993; (1973 — \$58,992).

During the four year period of commercial production ending on 31st July, 1976, the Corporation, if required —

- (i) remains obligated to purchase from Rio Algom Mines Limited additional units of income debentures and Class A shares of Lornex for an aggregate expenditure not to exceed \$1,663,725 and has the option to purchase from Rio Algom additional units of income debentures and Class A shares; and
- (ii) will sell to Woodford Investments Ltd. such income debentures and certain of such Class A shares which the Corporation is obligated to purchase, and under certain specified circumstances, has granted to Woodford the abovementioned option.

Note 3. Subsidiary Company

The Corporation owns all of the issued common shares and the total principal amount of \$747,000 redeemable bonds of Quintus Leaseholds Limited. The total investment has been included at the estimated realizable value of \$200,000; (1973 at cost of \$268,077).

Note 4. Other Investments

INDUSTRIAL MINERAL VENTURES, INC. (at written down value — 1973 at cost)	1974	1973
31,800 common shares, U.S. \$1 par value	\$ 636,000	\$ 1,147,130
U.S. \$350,000 1% — 10% subordinated debentures, due 31/12/80-86 at rate of U.S. \$50,000 per annum	192,500	349,125
	<u>828,500</u>	<u>1,496,255</u>
BARYMIN EXPLORATIONS LIMITED (at cost)		
700,000 common shares, n.p.v. (market value \$294,000)	496,380	496,380
	<u>\$ 1,324,880</u>	<u>\$ 1,992,635</u>

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Note 5. Promissory Notes

These notes, dated 1st July, 1973, maturing 30th June, 1988, bear interest at 1% per annum through 30th June, 1978, and thereafter at 10% per annum. They are redeemable at the option of the Corporation, at a premium of 20% on or before 30th June, 1978; the premium thereafter declining by 2% for each consecutive 12 month period, so that the notes will be redeemable at par during the 12 month period expiring 30th June, 1988. The notes are convertible throughout their term into common shares of the Corporation, as presently constituted, at an effective conversion price of \$1.75 per share.

Note 6. Share Capital

	<u>1974</u>	<u>1973</u>
3% non-cumulative redeemable preferred shares of \$1 each		
Authorized 3,000,000 shares \$ 3,000,000		
Common shares of \$1 each		
Authorized 16,000,000 shares \$16,000,000		
Issued 7,860,823 shares	\$ 7,860,823	\$ 7,860,823
Reserved for issue in exchange for securities of former subsidiary companies <u>44,300</u> shares	<u>44,300</u>	<u>44,300</u>
	<u>\$ 7,905,123</u>	<u>\$ 7,905,123</u>

A total of 4,026,857 common shares are reserved to be issued against conversion of the Corporation's convertible promissory notes.

Note 7. Directors and Officers

The Board of Directors consists of seven members whose aggregate remuneration during the year amounted to \$10,488 (1973 — \$10,500). There are four officers of the Corporation, two of whom are also directors. The officers, as such, received no remuneration during the year.

AUDITORS' REPORT

To the Shareholders,
The Yukon Consolidated Gold Corporation Limited:

We have examined the statement of financial position of The Yukon Consolidated Gold Corporation Limited as at 31st December, 1974 and the statements of income and retained earnings and changes in financial position for the year then ended. For The Yukon Consolidated Gold Corporation Limited our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these financial statements are properly drawn up so as to present fairly the financial position of the Corporation as at 31st December, 1974 and the results of its operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, P.Q.
25th March, 1975

Price Waterhouse & Co.,
Chartered Accountants

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

Head Office	Royal Trust Tower, Bentall Centre, 555 Burrard Street, Vancouver, B.C. V6B 3R7
Managers	PEMBROKE MANAGEMENT LTD., 1018 Sun Life Building, Dominion Square, Montreal, Quebec H3B 2W8
Auditors	PRICE WATERHOUSE & CO., 5 Place Ville Marie, Montreal, Quebec H3B 2G4
Canadian Registrar and Transfer Agent	THE ROYAL TRUST COMPANY, 555 Burrard Street, Vancouver, B.C. Toronto-Dominion Centre, Toronto, Ontario 630 Dorchester Blvd. West, Montreal, Quebec
United Kingdom Registrar	CENTRAL REGISTRATION LIMITED, 1 Redcliff Street, Bristol, BS1 6NT, England
London Transfer Committee	LESLIE A. BRODER JOHN REGINALD FRANCIS-SMITH G. C. LLOYD-DAVIS
Secretary, London Transfer Committee	LESLEY A. THOMASSON 6 St. James's Square, London, SW1Y 4LD, England
Shares Listed	Montreal Stock Exchange Toronto Stock Exchange

